

**REPORT OF THE AUDIT OF THE
FORMER BOONE COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER BOONE COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Boone County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the former County Clerk and the revenues, expenditures, and fund balances of the former County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The former Boone County Clerk had total revenues of \$29,017,411 and total expenditures of \$26,407,114, resulting in net revenues of \$2,610,297. Total revenues decreased by \$276,799 and total expenditures decreased by \$178,522 from the prior year. The former County Clerk paid 75% of revenues to the State Treasurer in the amount of \$1,985,820. This was an increase of \$31,427 from the prior year. The former County Clerk paid 25% of revenues to the Boone County Fiscal Court in the amount of \$624,477. This was an increase of \$10,911 from the prior year.

Operating Fund (75%) – The former County Clerk's beginning fund balance as of January 1, 2006 totaled \$127,104. Total revenues were \$1,992,820, which included the Imprest cash balance of \$7,000. Total expenditures were \$2,259,787, which resulted in a deficit fund balance of \$139,863 at December 31, 2006.

County Fund (25%) – Total revenues of \$624,477 were deposited and transferred to the Boone County Treasurer for the calendar year 2006.

Report Comment:

The Former County Clerk's 75% Operating Fund Had A Deficit Balance Of \$139,863 At December 31, 2006

Deposits:

The former County Clerk's deposits as of April 7, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$541,898

The former County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former County Clerk's deposits in accordance with the security agreement.

Leases:

The former County Clerk had debt obligations totaling \$1,273,860 for software license and computer hardware agreements as of December 31, 2006.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary W. Moore, Boone County Judge/Executive
The Honorable Marilyn K. Rouse, Former Boone County Clerk
Members of the Boone County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the former County Clerk of Boone County, Kentucky, and the statement of revenues, expenditures, and fund balances of the former County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the former County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the former County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2007 on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Gary W. Moore, Boone County Judge/Executive
The Honorable Marilyn K. Rouse, Former Boone County Clerk
Members of the Boone County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former County Clerk's 75% Operating Fund Had A Deficit Balance Of \$139,863 At December 31, 2006

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Boone County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

October 25, 2007

BOONE COUNTY
MARILYN K. ROUSE, FORMER COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		\$	5,103
State Fees For Services			41,940
Fiscal Court			15,417
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,672,965	
Child Victim Fund		617	
Usage Tax		12,136,572	
Notary Fees		15,414	
Lien Release Fees		19,371	
Tangible Personal Property Tax		10,502,391	
Other-			
Marriage Licenses		25,150	
Beer and Liquor Licenses		79,541	
Deed Transfer Tax		1,165,263	
Delinquent Taxes		<u>1,145,677</u>	27,762,961
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		73,689	
Real Estate Mortgages		359,794	
Chattel Mortgages and Financing Statements		447,791	
Powers of Attorney		4,988	
Housing Trust Fund		76,812	
All Other Recordings		128,563	
Charges for Other Services-			
Candidate Filing Fees		2,260	
Copywork		42,373	
Postage		12,855	
Miscellaneous		<u>10,998</u>	1,160,123
Interest Earned			<u>31,867</u>
Total Revenues			29,017,411

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY
 MARILYN K. ROUSE, FORMER COUNTY CLERK
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 2,040,157	
Usage Tax	11,772,439	
Tangible Personal Property Tax	3,726,155	
Licenses, Taxes, and Fees-		
Delinquent Tax	123,975	
Legal Process Tax	115,411	
Miscellaneous	<u>76,812</u>	\$ 17,854,949

Payments to Fiscal Court:

Tangible Personal Property Tax	1,148,750	
Delinquent Tax	88,489	
Deed Transfer Tax	1,107,000	
Beer and Liquor Licenses	<u>75,065</u>	2,419,304

Payments to Other Districts:

Tangible Personal Property Tax	5,225,609	
Delinquent Tax	<u>665,342</u>	5,890,951

Payments to Sheriff 4,389

Payments to County Attorney 174,624

Library and Archives Grant (Note 4) 5,103

Other Charges-

Bank Service Charges	48,070	
Bad Check Expense	<u>9,724</u>	

Total Expenditures \$ 26,407,114

Net Revenues 2,610,297

Payments to State Treasurer:

75% Operating Fund	1,985,820	
25% County Fund	<u>624,477</u>	<u>2,610,297</u>

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY
 MARILYN K. ROUSE, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE FORMER COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006	\$ 127,104	\$	\$ 127,104
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,985,820		1,985,820
Imprest Cash Balance	7,000		7,000
Fees Paid to State - County Funds (25%)		624,477	624,477
Total Funds Available	2,119,924	624,477	2,744,401
<u>Expenditures</u>			
Boone County Fiscal Court		624,477	624,477
Personal Services-			
Official's Statutory Maximum	94,106		94,106
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	825		825
Deputies Salaries	1,028,838		1,028,838
Part-Time Salaries	26,510		26,510
Overtime Gross	1,466		1,466
Employee Benefits-			
Employer's Share Social Security	83,717		83,717
Employer's Share Retirement	131,830		131,830
Employer's Paid Health Insurance	239,589		239,589
Other Insurance Disbursements	42,999		42,999
Contracted Services-			
Microfilming	217,063		217,063
Supplies and Materials-			
Office Supplies	49,671		49,671

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY
 MARILYN K. ROUSE, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE FORMER COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Dues	\$ 17,298	\$	\$ 17,298
Travel	1,262		1,262
Election Expense	1,181		1,181
Postage	23,689		23,689
Office Renovation/Upkeep	5,036		5,036
Insurance	6,546		6,546
Preparing Tax Bills	11,871		11,871
Miscellaneous	4,142		4,142
Debt Service:			
Lease Purchases -			
Software & Computer Hardware	268,548		268,548
Total Expenditures	<u>2,259,787</u>	<u>624,477</u>	<u>2,884,264</u>
Fund Deficit - December 31, 2006 *	<u>\$ (139,863)</u>	<u>\$ 0</u>	<u>\$ (139,863)</u>

* Note - The County Treasurer presented a check to the State Treasurer on June 19, 2007, for the fund deficit.

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2006

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

BOONE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BOONE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 7, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former County Clerk's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$541,898

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$5,830 prior to the calendar year 2006. The grant beginning balance totaled \$5,845 as of January 1, 2006. Interest earned during the year totaled \$28. Funds totaling \$5,103 were expended during the year. The unexpended grant balance was \$770 as of December 31, 2006.

Note 5. Mechanic's Lien Accounts

The former County Clerk had bank accounts for mechanic's liens. When a mechanic's lien is filed, funds can be deposited into these accounts until the dispute has been settled.

A. Grome Account

There were no funds deposited or expended during 2006 leaving an unexpended balance of \$450 as of December 31, 2006.

B. Bushelman Account

Funds totaling \$25,862 were deposited and no funds were expended during 2006, leaving an unexpended balance of \$25,862 as of December 31, 2006.

Note 6. Lease Agreements

Commitments to the following lease agreements as of December 31, 2006 were:

Item Purchased	Monthly Payment	Beginning Date	Ending Date	Principal Balance December 31, 2006
Software License	\$ 5,975	7/17/06	7/16/11	\$ 322,650
Computer Hardware	17,615	7/17/06	7/16/11	951,210
Totals	<u>\$ 23,590</u>			<u>\$ 1,273,860</u>

BOONE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 7. Bank Service Charges

The former County Clerk had approximately \$48,070 in bank service charges at the 2006 calendar year-end. The bank service charges are a cost the former County Clerk's office incurred for accepting Visa and MasterCard payments.

Note 8. Bad Check Expense

The former County Clerk had approximately \$9,724 in uncollected bad checks at the 2006 calendar year-end. The checks in question have already been turned over to the County Attorney for collection.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary W. Moore, Boone County Judge/Executive
The Honorable Marilyn K. Rouse, Former Boone County Clerk
Members of the Boone County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the former Boone County Clerk for the year ended December 31, 2006, and have issued our report thereon dated October 25, 2007. The former County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Boone County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Boone County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Boone County Clerk's financial statements as of December 31, 2006, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

- The Former County Clerk's 75% Operating Fund Had A Deficit Balance Of \$139,863 At December 31, 2006

The former Boone County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the former County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 25, 2007

COMMENT AND RECOMMENDATION

BOONE COUNTY
MARILYN K. ROUSE, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The Former County Clerk's 75% Operating Fund Had A Deficit Balance Of \$139,863 At December 31, 2006

The former County Clerk's 75% Operating Fund had a deficit balance of \$139,863 as of December 31, 2006. KRS 64.345 (4) states, "if seventy-five (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% Operating Fund had to be settled at the end of the former County Clerk's term, which ended on December 31, 2006. The County agreed to pay off the deficit and the County Treasurer presented a check to the State Treasurer on June 19, 2007 for the deficit balance.

Former County Clerk's Response: We did not know we were sending too much money to Frankfort each month.